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MORTGAGE BANKING

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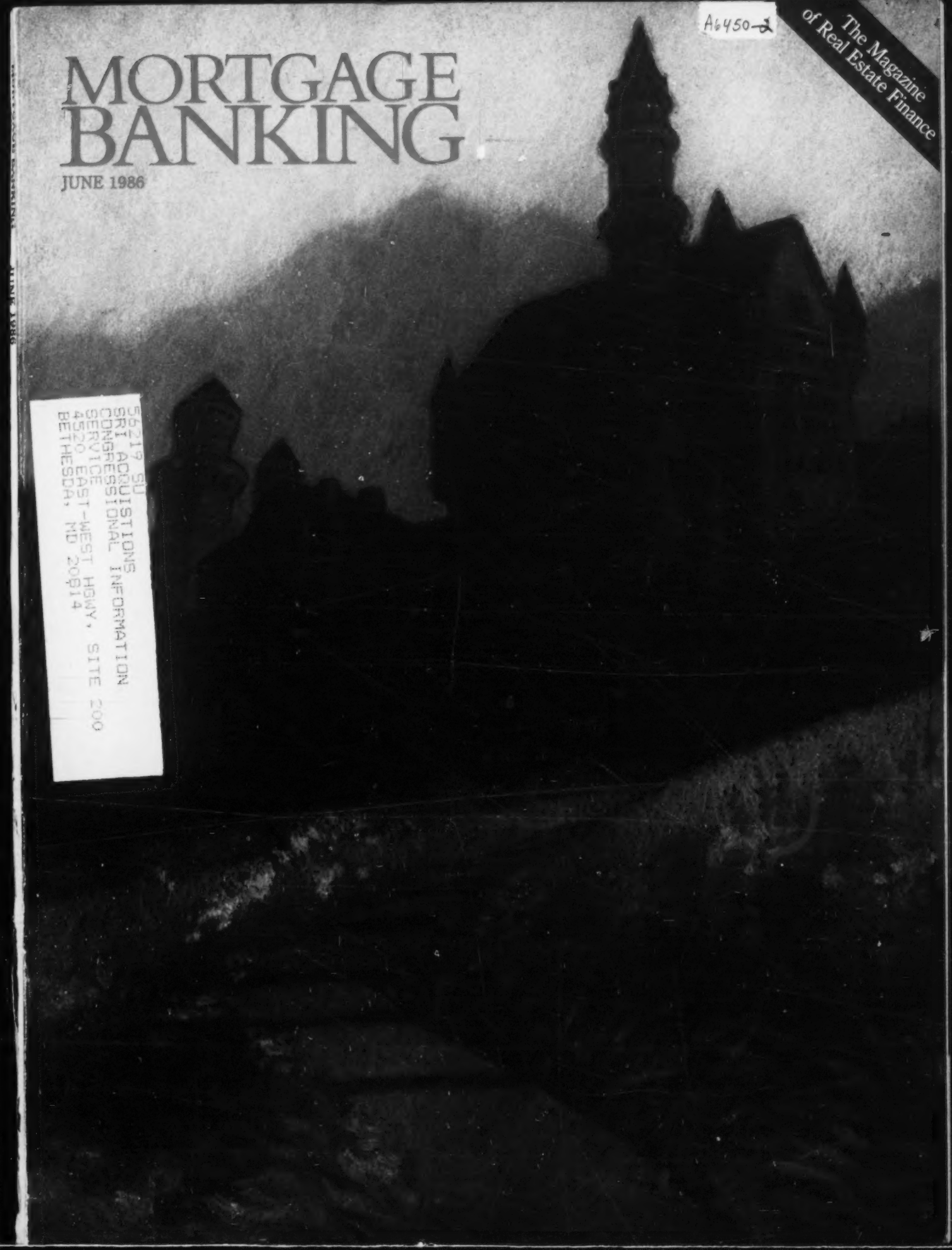

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MORTGAGE BANKING

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TAPPING HOME EQUITY
A Cause For Concern?

One of the most rapidly growing segments of consumer finance in the nation is the home equity loan—a loan secured by a second mortgage on the borrower's home.[1] In 1971, there was less than $5 billion of second mortgage credit outstanding in the United States. By 1981, second mortgage debt had grown to more than $40 billion.[2] In 1985, an estimated $55 billion of new second mortgage loans had been originated.[3] It is estimated that two of every five mortgage loans originated is a second.[4]

Several factors have fueled this growth. Rapid rates of appreciation in the value of housing inflated the equity of most homeowners during the late 1970s. As a consequence, many homeowners held a large amount of wealth that could be converted to cash by adding a second mortgage. Second, interest rates on consumer credit escalated during the same period, making the cost of second mortgage credit more attractive. The introduction of home equity access programs by major financial companies has made second mortgages a more feasible substitute for personal loans. Lenders are attracted to second mortgages because delinquency rates have been low relative to unsecured forms of credit.[5] Today in the New York area, home equity loans are originated at rates ranging from 10.75 to 12 percent.[6]

Such growth has not occurred without incident. In California during the late 1970s, a flurry of second mortgage activity caused a major scandal. The combination of loan underwriting by noninstitutional lenders (mortgage brokers who packaged seconds for sale to investors) and an unanticipated softening of the resale market left investors and borrowers in trouble. Fascinated by the profit potential in residential real estate, investors clamored for a piece of the action. Some mortgage brokers were all too happy to accommodate, sometimes originating as many as nine loans on one home.[7] As values declined, borrowers walked away leaving the investors to scramble over what was left.

Today, growth in property values is settling down to a more sustainable level than a few years ago. In addition, first mortgage foreclosures are running at high rates. However, aggressive plans are underway to expand the second mortgage business.[8] Are we headed for a debacle similar to the California incident? Is the expansion of second mortgage debt cause for concern in today's economy?

The issue of home equity loans was highlighted recently in the Texas legislature. Texas has the oldest and most restrictive homestead law in the country, a constitutional provision that dates back to the days before statehood. The law effectively eliminates second mortgage loans on homestead property except to assist in initial purchase, making home improvements or satisfying a tax lien on the property. Any increase in the debt burden on the home after purchase is ruled out, either through junior financing or refinancing of the principal loan. This is accomplished by refusing to recognize any lien established through such a loan. The primary purpose of the provision is to prevent loss of the home due to imprudent acts of the homeowner.

Texas homeowners have unencumbered equity in their homes estimated at more than $150 billion.[9] Yet that vast store of wealth is unavailable to homeowners unless they sell their homes. A coalition of lenders interested in introducing home equity programs in the state has been working for the past several years to change the homestead law. Opposition to the change, which includes the Texas Association of Realtors, has succeeded in frustrating the move thus far. The ensuing debate, however, has served to focus attention on the merits and hazards of an expanded second mortgage market. Some of the major points are summarized.[10]

The backers of homestead revision have produced figures that indicate the significant amount of economic stimulus that would be produced by a broader second mortgage market. They have also commissioned public opinion polls that show broad support for the right to access homeowner equity through second mortgage financing.

The most important beneficial effects of allowing home equity access programs, however, are the expanded options available to the homeowner. The availability of a viable credit market for second mortgages makes the home a more liquid investment and may provide a more affordable alternative to unsecured personal credit.

Many homeowners have a substantial amount of wealth built up in the equity of their homes. Most commonly this is due to the rapid increase in property values during the last decade. In other cases, owners may have increased their equity as a result of a

large cash investment at purchase to assume an existing low interest rate loan or as a strategy to limit interest expenses on new loans (possibly as part of the new "fast pay" mortgages). If this wealth is forced to remain in the house until resale, the owner may have to forego opportunities to invest in a business or a child's education, possibly more valued prospects than equity. Selling the home may be inconvenient, undesirable or impractical.

Advantages

The other major advantage of a home equity access program is the possibility that credit could be arranged at lower cost than alternative sources. Because second mortgages have become more common since 1980, interest rates have declined due to favorable experience on delinquency rates. In fact, the rates on second and first mortgages are converging, despite the difference in the collateral quality of the liens.[11] Most equity access programs peg their rates to the prime interest rate, generally with a 1 to 3 percent spread. At current levels, the prime rate is approximately 1 percentage point below first mortgage rates on fixed-rate loans. The rate is much lower than the rates on personal loans and this is a major factor in their popularity.[12]

The cost comparison to unsecured credit must be tempered by two considerations. First, second mortgages involve substantial initial costs to originate. Generally, there are credit checks, appraisals, fees and possibly a new title insurance policy.[13] These costs can make second mortgages impraqtical for relatively small loan amounts. Some of the problem is obviated by the revolving loan programs because a line of credit can be established and drawn upon as needed without the need for additional fees for each draw. However, the borrower will feel pressured to eventually use the full line of credit that has been essentially paid for through the initial

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fees. Therefore, there is an incentive to maximize debt.

Secondly, most equity access programs apply a variable interest rate to the loans. In some cases, the rate may be adjusted each day. Unlike first mortgage adjustable loans, there rarely are adjustment caps.[14] The borrower has no assurance that the loan, which is a bargain at origination, does not become the unaffordable loan in the future.

Concerns

There were a variety of concerns expressed about the possibility of liberalizing the homestead laws in Texas. While directed toward second mortgages in general, the concerns are especially appropriate for home equity access plans. It is possible to boil down most of the rhetoric to three major points: foreclosure risk, extinction of unsecured credit and complication of the home sales transaction.

The fear of higher rates in mortgage foreclosures is based on the greater level of debt that would be heaped upon both the homeowner and the property. Investigations of mortgage foreclosures show that an increasing debt service burden, relative to income, promotes borrower delinquency. When combined with eroding equity, caused by stagnant or declining property values, this rising burden leads to default.[15] Equity access programs increase the chances of both delinquency and default. The added burden of second mortgage payments may be exacerbated by variable interest rates during a time of rising rate indexes. If the owner's equity is depleted by the existence of the second lien, it increases the probability that the value of the home on the market may fail to cover the accumulated debt.

Two other factors were mentioned by the opponents of the homestead revision as contributors to the foreclosure problem. In many cases, a second mortgage will probably be taken out to finance the purchase of a good with a life expectancy shorter than the term of the loan. For example, one may use the loan to purchase an automobile. In five years, one may have a worn-out car, but many years of additional mortgage payments remaining. Will the borrower still be as diligent about meeting such a financial obligation, when all the pleasure of the purchase has gone?

Possibly a more serious concern is the problem of inexperienced lenders. There was some fear of an explosion of second mortgage originations by lenders accustomed to unsecured credit. Loose underwriting procedures may be encouraged by the belief that any loan secured by the borrower's home would be solid.

These last two points are, of course, speculations and are not conducive to empirical testing. The first point about thinner equity is based on both theoretical and empirical studies. How-

"The availability of a viable credit market for second mortgages makes the home a more liquid investment and may provide a more affordable alternative to unsecured personal credit."

ever, the period when equity access programs have risen in prominence has not been accompanied by rising foreclosure rates on seconds. (Actually, the experience has run in the opposite direction.[16]) As a crude test, one might compare the foreclosure experience of Texas lenders to those in other states. Table 1 shows average foreclosure rates for the regional federal home loan banks, as well as the average unemployment rates for each region. Although Texas is only one state in its region, it comprises about 80 percent of the loan volume in the region.

The Texas region does have one of the lowest foreclosure rates in the country during this period (although the state had one of the highest rates in 1985). However, this probably has more to do with the fact that Texas also had one of the strongest economies in the country than the unique nature of its homestead law.[17] Some regions suffered higher rates of unemployment during the period, yet had lower rates of foreclosure.

The second major concern involved the continuing availability of unsecured credit. It is probably no secret that lenders prefer collateral to no security for their loans. Therefore, it is logical to expect second mortgages to gain in popularity with lenders. Unless the overall credit market expands, there will have to be some substitution of secured credit for unsecured credit for second mortgage debt to grow. Indeed, some equity access programs even offer VISA debit cards to function much like credit cards, except the credit goes directly to the account secured by the mortgage.[18]

Growing popularity of equity access programs, however, may not be a sign that unsecured credit is drying up. Part of the growth is, undoubtedly, due to demand by borrowers for larger credit lines on more favorable terms than those available on unsecured loans. As long as there is a demand for unsecured lines of credit, some lender will oblige. There is a rather substan-

TABLE 1

Average Mortgage Foreclosure And Unemployment Rates Compared For Regions Of The U.S. 1978-1982

Region	Foreclosure Rate (% of loans held)	Unemployment Rate (% of labor force)
New England	.080	6.3
New York/New Jersey	.105	7.5
Penn.-Del.-W. Va.	.088	8.1
Southeast	.052	6.7
Ky.-Tenn.-Ohio	.121	8.2
Ind.-Mich.	.130	10.1
Ill.-Wis.	.127	7.8
Upper Plains	.102	6.2
Tex.-Ark.-La.-N.M.-Miss.	.072	6.0
Lower Plains	.082	4.9
Cal.-Ariz.-Nev.	.053	7.3
Northwest-Mountains	.104	7.6

Sources: Federal Home Loan Bank, Bureau of Labor Statistics

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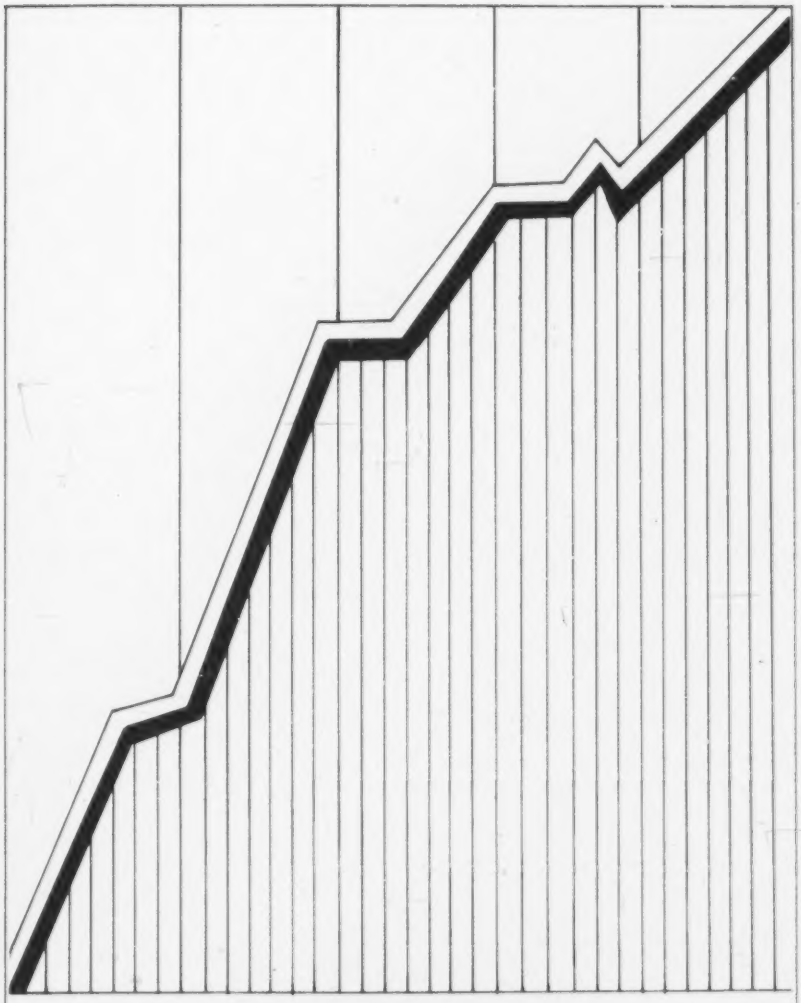
> *"The other major advantage of a home equity access program is the possibility that credit could be arranged at lower cost than alternative sources."*

tial, hard-core demand for such credit: nonhomeowners, those who would rather pay more to avoid risking their home and those whose credit needs are too small to justify a second mortgage.

The third major reservation about equity access programs was their possible effect on home sales. Undoubtedly, this was the reason that the real estate brokerage industry in Texas chose to officially oppose the homestead revision. The existence of second mortgages might affect sales in three ways, and in each case, the effect would be to reduce the frequency of sales.

First, the existence of additional liens on the home tends to complicate the process of transferring title. In most cases, arrangements must be made to pay off the loans to clear the title for a sale. While this procedure could probably be handled smoothly in most cases, the probability of a delayed or even aborted closing and sale is increased.

Also, the dissipation of homeowner's equity through second mortgages may discourage upgrading of housing. The forced savings program represented by the amortizing mortgage loan, combined with appreciation, allows many homeowners to buy a more spacious, luxurious, more up-to-date or better located home as their needs change. If this equity has been drawn down by increasing debt, the owner may be forced to stay put. Of course, this rests on the premise that homeowners would respond to the availability of second mortgages by expanding their overall level of borrowing, rather



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than merely substituting mortgage financing for unsecured loans. A homeowner with little unencumbered equity, but debt-free otherwise, may be able to buy a better home just as well as one with abundant equity, but laden with installment debt.

The third reason why second mortgages may reduce home sales is that the ability to access equity without resorting to a sale should eliminate those sales induced solely by the necessity to obtain cash. It is impossible to measure how important such sales are relative to overall sales volume. One suspects they are rather infrequent. The sale of a home is a drastic and expensive method for gaining extra cash. Thus, it would probably be reserved for dire emergencies.

While there is some reason to expect second mortgages to affect home sales, there is even more reason to expect that effect to be minor. In Texas, where second mortgages are limited, housing markets have been very active in recent years. However, when the rapid growth of the state is considered, the market activity does not appear unusual compared to the rest of the nation. Available data do not suggest the restriction on second mortgages has been instrumental in sustaining activity in the housing market.[19]

Threat or opportunity?

Some observers decry the American propensity to dig ever deeply into debt.[20] Easy access to credit cards, inviting consumer credit programs and new mortgage instruments designed to stretch loan qualifying criteria are seen as symptomatic of a greater problem of financial irresponsibility. In this view, the growing popularity of home equity access programs is merely another way for individuals to sacrifice future financial security. With Third World countries apparently hopelessly in debt and American farmers in serious trouble, will the homeowner be the next to join the line of debtors?

There are good reasons to discount this apparent threat. The latest generation of homeowners has sacrificed dearly to purchase their homes. In many cases, two wage earners in the family were required. Even then, the burden of mortgage payments was

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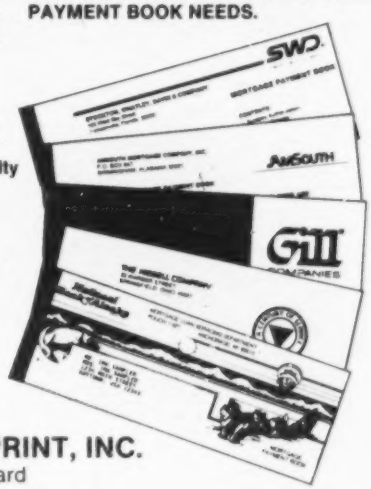

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high. Under these circumstances, these owners should be very reluctant to jeopardize their investment through additional borrowing. Those most attracted to equity loan programs will probably be those who purchased some time ago. They have seen their equity grow to the point of being their most significant source of personal wealth. Borrowing on this wealth can be a prudent act when a legitimate need arises.

Debt, per se, is not bad. As long as the purposes are worthwhile, from the borrower's viewpoint, and the loans are based on solid underwriting procedures, there should be little concern. Problems could arise should property values decline significantly. Values of single-family homes have already corrected most of any speculative premium acquired during the price escalation of the late 1970s.[21] Therefore, most homeowners' equity should be relatively solid. The real concern is whether or not homeowners will continue to act prudently when faced with new opportunities to hock their future earning capacity. In a country founded on freedom, we have to take that risk. □

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[1] Home equity is a term generally applied to revolving credit programs secured by a second lien on the borrower's home. Some believe the programs coined this term to avoid the adverse reputation which had developed for second mortgages. See *Bankers Research* (October 31, 1985), p.5.
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[17] The unemployment rate has been shown to explain regional variations in mortgage defaults. See Tim Campbell and J. Kimball Dietrich, "The Determinants of Default on Insured Conventional Residential Mortgage Loans," *Journal of Finance* (December 1983), pp. 1569-81.
[18] Stern, op. cit., p.39.
[19] According to data from the National Association of Realtors and the Bureau of the Census, the South region had the most active housing market in 1975-1980 with more than $16 in sales per person per year. The region was the second fastest growing with a 20 percent increase in population during the 1970s. The Northcentral region had slightly less than $16 in per capita sales, yet grew by only 4 percent during the decade.
[20] Stern, op. cit., pp.38-40.
[21] William Celis, III, "A House May Still Be a Home, But Often Not a Good Investment," *Wall Street Journal* (November 13, 1985), p.29.

MORTGAGE MARKET TRENDS

In the first quarter of 1986, the nation's output of goods and services grew at an annual rate of 3.2 percent, up from 0.7 percent in the fourth quarter. Real net exports declined sharply in the fourth quarter and then recovered in the first. Considerable improvement also occurred in consumer spending and the housing sector. Consumer spending was helped by falling or stable prices for many goods. This helped boost real disposable income. In addition, the steep decline in interest rates has strongly benefited the housing sector. Nevertheless, there are still some underlying weaknesses in the economy. For instance, the manufacturing sector continues to perform poorly, primarily due to stiff import competition. In addition, business fixed investment, which has been sluggish, is not expected to strengthen. Moreover, the proposed tax reform bill, if passed, will have some negative effects on economic growth in the short-run.

Over the near term, the business investment picture is far from rosy. Real nonresidential fixed investment fell at an annual rate of 13 percent in the first quarter, with producers' durable equipment purchases decreasing by more than $12 billion. Some recovery in this component of investment will likely occur in the second quarter. However, due to the drop in oil prices, spending on oil and gas exploration has collapsed and is not expected to improve in the near future. Finally, the surge in business inventories was not as positive as it appears on the surface. Part of the first quarter's rise, particularly for automobiles, reflected an involuntary build-up of inventory, as sales fell sharply behind production. Auto production will probably be down in the second quarter, as producers seek to work down unwanted stockpiles.

Despite the sharp decline of the dollar, the manufacturing sector has yet to show signs of snapping out of its doldrums. For example, March orders at U.S. factories for manufactured goods fell by more than 2 percent, continuing the weakness in this sector that was evident in the first two months of the quarter. After declining by 0.8 percent and 0.7 percent respectively, in the preceding two months, industrial production rose by only 0.2 percent in April. As a consequence, there has been a corresponding downward drift in capacity utilization.

The soaring merchandise trade deficit is a reflection of the troubles that are besetting American manufacturers. In March, the net import figure widened to $14.5 billion, with much of the deficit coming from the importation of manufactured goods, which climbed to an all-time high.

On the positive side, the value of the dollar has dropped significantly in the past 15 months. Since peaking in the first quarter of 1985, the dollar has fallen more than 30 percent against a composite of currencies. Not surprisingly, the effects of the falling dollar are not yet fully reflected in the trade balance. Hopefully, by the end of the year, the effects of the falling dollar will be reflected in a pick up in activity in the manufacturing sector and a corresponding decline in the merchandise trade deficit.

Another reason for optimism is the substantial progress that has been made in bringing down inflation. There are a number of reasons, including the absence of any undue demand pressures on industrial or labor resources, for this improvement. However, tumbling oil prices have been the major factor behind the sharp decline in inflation. The producer price index has fallen for four straight months. Retail prices, with a lag, have also declined this year. The consecutive 0.4 percent drops in the consumer price index in March and April have given consumers the biggest two-month price decline in 36 years. Inflation is expected to continue to be very moderate over the near term and then rise during the latter part of the year as oil prices stabilize. For the year, the rate of consumer price inflation will probably be well below 3 percent.

The weakness of the economy, the improved outlook for inflation and the prospects for lower federal budget deficits are all having a significant impact on the money and capital markets. Since the fourth quarter of the last year, rates on both short- and long-term maturities have been trending downward. Presently, the yields on short-term market instruments are slightly more than 6 percent, while long-term rates are averaging about 7½ to 8 percent. Moreover, lenders are now offering mortgage rates of about 9½ to 10 percent. In addition, while Federal Reserve officials have been reluctant to push interest rates down, they have allowed the rates they control directly to follow the market-determined rates downward. Thus, there have been two cuts in the discount rate in the past two months. Currently, the discount rate is 6.5 percent and the prime rate is 8.5 percent. Market rates may drop somewhat more during the near term, as the economy continues its sluggish growth pattern. Therefore, after the Federal Reserve has had time to evaluate the effects of its latest actions, another cut in the discount rate is possible.

The continuing declines in mortgage rates has proven to be very beneficial to both housing sales and construction. New home sales, at an annual rate amounted to 903,000 units in March. This rate is 27 percent above February's figure and is the highest rate on record. Sales of existing homes have also been relatively strong, remaining above the 3 million unit level for 12 consecutive months.

Lenders are also dealing with an extraordinarily high volume of refinancing. Recent estimates indicate that about 40 to 50 percent of all originations are refinancings. Thus, between housing sales and refinancings, loan activity has been very strong this year. In addition, new home construction has also been quite robust. After averaging well above 1.9 million units at an annual rate in the first three months of the year, housing starts rose by another 4 percent in April to a 2 million unit pace.

With mortgage rates expected to decline somewhat more during the near term, starts and sales levels should continue to be robust. Even after rates stabilize later in the year, the housing sector will continue to be a source of strength in the economy.

On balance then, over the near term, the slowing in aggregate sales and production, particularly for automobiles and the cutbacks in investments, mainly in the oil industry, will keep economic growth at a relatively low level at least through the end of the current quarter. However, as the beneficial effects of declining or stable prices and lower interest rates begin to be felt later this year, consumer spending should be reinvigorated. This should improve production and operating rates and overall economic growth should turn up.

Robert Rosenblatt
Assistant Economist
May 21, 1986

HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS: Actual Total	HOUSING STARTS: Actual 1-4 Units	HOUSING STARTS: Actual 5+ Units	HOUSING STARTS: Seasonally Adjusted Annual Rate Total	HOUSING STARTS: Seasonally Adjusted Annual Rate 1-4 Units	HOUSING STARTS: Seasonally Adjusted Annual Rate 5+ Units	PERMITS 17,000 ISSUING PLACES: Actual Total	PERMITS 17,000 ISSUING PLACES: Actual 1-4 Units	PERMITS 17,000 ISSUING PLACES: Actual 5+ Units	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rate Total	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rate 1-4 Units	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rate 5+ Units
1985												
NOV	125	80	45	1,566	1,041	525	120	74	47	1,661	1,029	632
DEC	115	71	44	1,882	1,181	701	128	68	60	1,873	1,101	763
1986												
JAN	116	79	37	2,034	1,442	592	119	74	45	1,907	1,223	684
FEB	107	71	36	1,997	1,319	678	109	68	41	1,803	1,147	656
MAR	149	103	46	1,930	1,289	641	152	99	53	1,834	1,150	684
APR	188	129	58	2,009	1,346	663	180	125	55	1,883	1,256	627
1985 TOTAL	1,741	1,165	576				1,733	1,077	657			
1984 TOTAL	1,750	1,206	544				1,682	1,065	617			
4 MONTHS												
1986	560	382	178				561	365	196			
1985	521	354	167				518	331	186			
1984	546	384	162				558	362	196			
1983	458	327	131				452	298	154			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

YEAR AND MONTH	STARTS: Actual North East	STARTS: Actual Mid-West	STARTS: Actual South	STARTS: Actual West	STARTS: Seasonally Adjusted Annual Rate North East	STARTS: Seasonally Adjusted Annual Rate Mid-West	STARTS: Seasonally Adjusted Annual Rate South	STARTS: Seasonally Adjusted Annual Rate West	PERMITS 17,000 ISSUING PLACES: Actual North East	PERMITS 17,000 ISSUING PLACES: Actual Mid-West	PERMITS 17,000 ISSUING PLACES: Actual South	PERMITS 17,000 ISSUING PLACES: Actual West	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rate North East	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rate Mid-West	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rate South	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rate West
1985																
NOV	20	17	57	30	235	210	767	442	21	16	52	32	270	202	716	473
DEC	17	13	57	34	283	261	870	468	19	17	62	30	276	295	862	440
1986																
JAN	14	10	62	29	350	318	909	457	14	12	58	34	304	329	770	504
FEB	13	11	51	33	411	364	744	478	12	12	53	32	301	306	727	469
MAR	20	21	69	39	326	338	763	503	21	20	64	46	276	287	718	553
APR	30	32	79	50	329	358	802	520	29	32	69	49	303	328	734	539
1985 TOTAL	252	240	782	468					260	237	753	484				
1984 TOTAL	204	243	866	436					201	212	812	457				
4 MONTHS																
1986	76	73	258	152					76	76	247	162				
1985	59	54	261	148					70	55	243	150				
1984	44	56	303	146					51	57	293	157				
1983	40	45	274	100					39	43	266	104				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands) EXISTING HOUSES[1]	NEW HOMES Sold	NEW HOMES Available For Sale	NEW HOMES Months Supply at Current Rate	VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions) Seasonally Adjusted Annual Rate Total	1 Unit	2+ Units	Non-res.	CONSTRUCTION STATUS (Units in thousands) Seasonally Adjusted Annual Rate Under Construction Total	1-4 Units	5+ Units	Completions Total	1-4 Units	5+ Units
1985														
OCT	301	52	358	6.5	$204.2	$85.3	$30.3	$88.6	1,087	633	456	151	110	41
NOV	246	51	357	6.1	205.1	86.0	29.2	89.9	1,087	627	460	143	100	43
DEC	221	47	352	5.8	210.4	86.6	29.9	93.9	1,088	618	471	162	113	49
1986														
JAN	213	54	353	6.2	212.2	89.0	29.7	92.5	1,094	628	466	122	81	41
FEB	218	58	347	6.4	214.2	92.4	29.4	92.4	1,111	639	472	118	76	42
MAR[p]	260	87	333	4.6	211.9	91.5	30.0	90.4	1,101	628	473	134	92	42
1985 TOTAL	3,216	686										1,703	1,167	534
1984 TOTAL	2,868	639										1,652	1,137	515
3 MONTHS														
1986	711	200										374	250	124
1985	645	170										365	247	118
1984	643	173										341	235	106
1983	555	147										247	177	70

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED
By Type of Institution and By Unit Type
(Dollars in millions)

YEAR AND MONTH	TOTAL Total	TOTAL Mtg. Bankers[9]	TOTAL S&Ls	TOTAL Banks[2]	TOTAL Life Cos.	1-4 UNITS Total	1-4 UNITS Mtg. Bankers[9]	1-4 UNITS S&Ls	1-4 UNITS Banks[2]	1-4 UNITS Life Cos.
1985										
JUN	$33,017	$5,869	$12,665	$12,370	$2,113	$21,151	$5,286	$9,551	$6,232	$82
JUL	31,407	6,503	11,709	11,051	2,144	21,273	5,969	9,093	6,110	101
AUG	34,928	7,792	13,324	11,832	1,980	25,518	7,028	10,996	7,390	104
SEP	35,188	7,422	13,316	12,346	2,104	24,104	6,963	10,483	6,541	117
OCT	36,525	6,548	14,014	13,288	2,675	24,450	6,104	11,032	7,208	106
NOV[p]	32,864	5,660	12,363	11,886	2,955	21,142	5,200	9,357	6,481	94
1984 TOTAL	295,062	50,816	129,482	97,776	16,988	199,228	47,589	96,187	54,626	826
1983 TOTAL	274,751	63,430	103,882	91,500	15,939	197,617	59,762	81,524	55,605	726
11 MONTHS										
1985	325,757	62,335	129,453	111,684	22,285	218,660	57,500	99,185	61,062	913
1984	266,922	46,279	118,863	88,361	13,419	183,239	43,384	89,273	49,836	746
1983	247,709	57,539	93,329	84,040	12,801	180,773	54,164	74,083	51,902	624
1982	113,112	26,175	36,990	43,139	6,808	79,226	23,759	30,005	24,986	476

LENDER ACTIVITY (Cont'd.)

LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1985										
JUN	$2,519	$ 418	$1,417	$590	$94	$9,347	$165	$1,697	$5,548	$1,937
JUL	1,804	53	974	604	173	8,330	481	1,642	4,337	1,870
AUG	2,201	239	1,085	665	212	7,209	525	1,243	3,777	1,664
SEP	2,202	287	1,099	656	160	8,882	172	1,734	5,149	1,827
OCT	2,694	150	1,456	700	388	9,381	294	1,526	5,380	2,181
NOV	2,565	153	1,401	756	245	9,137	277	1,906	4,679	2,515
1984 TOTAL	20,588	443	13,160	5,519	1,466	75,246	2,784	20,135	37,631	14,696
1983 TOTAL	16,169	566	8,521	5,485	1,597	60,965	3,102	13,837	30,410	13,616
11 MONTHS										
1985	22,986	2,122	12,669	6,151	2,044	84,111	2,713	17,599	44,471	19,328
1984	18,138	401	11,672	5,031	1,034	65,545	2,494	17,918	33,494	11,639
1983	14,036	553	7,525	4,660	1,298	52,900	2,822	11,721	27,478	10,879
1982	5,761	901	2,566	1,929	365	28,125	1,515	4,419	16,224	5,967

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1985										
JUN	$28,091	$5,731	$14,174	$5,385	$2,801	$105,354	$13,116	$56,079	$19,126	$17,033
JUL	27,791	5,686	14,594	4,928	2,583	99,706	14,684	49,838	17,882	17,302
AUG	32,123	6,588	16,969	5,434	3,132	103,290	14,190	50,198	20,243	18,659
SEP	30,531	6,123	16,055	6,094	2,504	114,357	15,205	50,579	29,268	18,980
OCT	29,039	4,208	16,134	5,775	2,922	110,307	12,436	49,882	29,100	18,889
NOV	29,343	6,636	13,967	5,476	3,264	112,662	12,237	49,249	32,014	19,162
1984 TOTAL	249,401	70,128	146,184	47,065	20,844					
1983 TOTAL	258,986	44,893	123,361	38,195	17,717					
11 MONTHS										
1985	295,373	53,497	155,874	56,741	29,261					
1984	238,436	41,090	135,312	43,255	18,779					
1983	229,963	65,006	113,345	35,210	16,402					
1982	100,892	37,572	39,102	17,483	6,735					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA[3]	VA	Private	Total		FHA(203)		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1985												
OCT	205	84	24	97	122	$8,308	34	$2,041	16	$1,120	72	$5,147
NOV	173	78	27	68	128	8,488	47	2,795	25	1,693	56	4,000
DEC	163	80	22	61	93	6,319	23	1,359	19	1,347	51	3,613
1986												
JAN	205	130	24	51	110	7,298	45	2,659	19	1,304	46	3,335
FEB	211	136	25	50	97	6,594	45	2,773	18	1,242	34	2,579
MAR	NA	NA	33	61	NA	NA	NA	NA	23	1,621	38	2,854
1985 TOTAL	2,194	902	251	1,041	1,261	83,305	338	19,784	192	13,046	731	50,475
1984 TOTAL	1,862	477	180	1,205	1,344	86,775	200	10,644	198	12,728	946	63,403
3 MONTHS												
1986	NA	NA	82	162	NA	NA	NA	NA	60	4,167	115	8,568
1985	NA	NA	46	136	NA	NA	NA	NA	37	2,416	163	10,960
1984	NA	NA	55	266	NA	NA	NA	NA	65	4,194	201	13,350
1983	NA	NA	87	143	NA	NA	NA	NA	46	2,835	96	6,044

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA Portfolio Comm.	FNMA Portfolio Purc.	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC Comm. to Sell	FHLMC Comm. to Buy	FHLMC Mtg. Purc.	FHLMC Mtg. Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
1985										
OCT	1,733	1,767	50,363	2,228	4,169	3,995	3,215	3,081	6,849	5,795
NOV	1,199	1,624	52,198	2,469	5,394	4,854	3,681	3,449	6,059	5,251
DEC	1,858	1,663	54,987	3,365	3,076	3,425	6,095	6,335	5,699	4,520
1986										
JAN	1,315	1,188	58,391	3,964	4,880	5,273	3,709	3,300	10,103	5,298
FEB	2,578	1,159	60,752	2,978	n.a.	n.a.	n.a.	n.a.	5,973	5,006
MAR[p]	1,917	1,410	62,310	2,260	n.a.	n.a.	n.a.	n.a.	14,053	5,047
1985 TOTAL	20,225	21,510	—	23,649	30,743	32,601	21,885	20,489	36,101	27,857
1984 TOTAL	21,007	16,721	—	13,546	30,921	32,846	22,952	21,376	70,280	50,496
3 MONTHS										
1986	5,810	3,757	—	9,020	NA	NA	NA	NA	30,929	15,362
1985	4,830	5,758	—	3,820	9,972	11,339	8,676	7,524	12,511	8,126
1984	5,328	4,822	—	3,783	3,724	4,728	4,099	3,184	10,005	8,235
1983	3,975	5,072	—	3,979	4,261	4,365	5,946	5,866	18,395	11,522

INTEREST RATES AND YIELDS

YEAR AND MONTH	1- to 4-UNIT MORTGAGES: FHA OPINION SURVEY FHA NEW[4]	FHA OPINION SURVEY CONVENTIONAL New	FHA OPINION SURVEY CONVENTIONAL Existing	FHLBB SURVEY CONVENTIONAL New	FHLBB SURVEY CONVENTIONAL Existing	FNMA 1 Yr. ARM (1%/Yr.)	FNMA FRM Conv.	APARTMENTS[5]
1985								
OCT	11.87%	11.86%	11.88%	11.09%	11.32%	10.50%	11.575%	13.03%
NOV	11.28	11.56	11.58	11.01	11.26	10.26	11.160	12.38
DEC	10.70	11.03	11.03	10.94	11.12	9.94	10.425	12.06
1986								
JAN	10.78	10.82	10.93	10.89	10.81	10.00	10.375	12.00
FEB	10.59	10.49	10.50	10.68	10.83	9.89	10.269	11.63
MAR[p]	n.a.	n.a.	n.a.	10.48	10.53	9.04	9.494	11.09

YEAR AND MONTH	CURRENT SECONDARY MARKET YIELDS GNMA[6]	FNMA[6]	FHLMC[6]	SELECTED SECURITIES A-Rated[7] Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
1985							
OCT	11.24%	11.28%	11.34%	11.82%	10.24%	7.33%	7.80%
NOV	10.75	10.95	11.01	11.38	9.78	7.30	7.77
DEC	10.02	n.a.	n.a.	10.91	9.26	7.14	7.75
1986							
JAN	9.99	10.18	10.22	10.74	9.19	7.16	7.71
FEB	9.75	9.90	9.95	10.21	8.70	7.11	7.63
MAR[p]	9.05	9.23	9.27	9.41	7.76	6.57	7.20

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1985				
OCT	49	100	104	110
NOV	(10)	97	117	123
DEC	(21)	76	n.a.	n.a.
1986				
JAN	4	80	99	103
FEB	38	105	120	125
MAR[p]	n.a.	127	145	148

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors "Existing Home Sales" series

[2] Mutual Savings Banks and Commercial Banks.

[3] FHA applications received includes the Direct Endorsement Program starting in 1984.

[4] Secondary market gross yields.

[5] Federal Home Loan Mortgage Corp. Existing Construction only.

[6] Securities for 0 to 30 day delivery.

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

[8] Year-to-date seasonally adjusted series not calculated.

[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.

* = 11 Month Totals

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

YEAR AND MONTH	NOT SEASONALLY ADJUSTED									SEASONALLY ADJUSTED			
		1-4 Units				5+ Units							
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-[3] res.	Total[2]	1-4 Units	5+ Units	Non-[3] res.
1984													
JUL	$ 3,760	$ 3,330	$ 800	$ 530	$ 2,000	$ 0	$ 0	$ 0	$ 430	$3,530	$2,960	$ 0	$460
AUG	3,570	3,070	520	380	2,170	0	0	0	500	3,120	2,600	0	510
SEP	3,050	2,400	550	380	1,470	70	70	0	580	3,380	2,500	120	780
OCT	3,700	3,110	820	470	1,820	0	0	0	590	3,600	2,920	0	750
NOV	3,370	3,090	820	470	1,800	0	0	0	280	3,890	3,610	0	280
DEC	5,250	4,090	1,290	690	2,120	80	0	80	1,080	4,880	3,860	70	770
1983 Total	65,050	55,680	20,620	12,570	22,490	3,840	810	3,030	5,530				
1984 Total	53,170	44,500	10,850	7,130	26,520	1,980	120	1,860	6,680				
12 MONTHS[5]													
1984	53,170	44,500	10,850	7,130	26,520	1,980	120	1,860	6,680				
1983	65,050	55,680	20,620	12,570	22,490	3,840	810	3,030	5,530				
1982	29,250	24,440	8,510	5,160	10,770	1,580	640	940	3,230				
1981	33,470	25,830	8,380	6,200	11,250	1,740	770	970	5,910				

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS[1]

YEAR AND MONTH	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
	Total	1-4 Units	5+ Units	Non-[3] res.	Total	1-4 Units	5+ Units	Non-[3] res.	1-4 Units	5+ Units	Non-[3] res.	1-4 Units	5+ Units	Non-[3] res.
1984														
JUL	$ 4,060	$ 2,940	$ 0	$1,120	$ 4,050	$ 3,580	$ 20	$ 450	$10,840	$ 70	$570	$9,870	$250	$1,570
AUG	2,920	2,630	0	290	4,220	3,380	10	830	7,430	40	500	7,730	210	1,600
SEP	2,910	2,640	30	240	2,760	2,400	80	280	7,350	300	500	7,460	480	800
OCT	3,910	3,240	0	670	4,550	4,090	30	430	7,660	170	540	8,400	370	740
NOV	3,430	2,820	0	610	3,880	2,760	170	950	7,460	40	690	6,940	270	1,050
DEC	5,480	4,090	430	960	4,850	3,910	80	860	7,850	100	750	7,810	280	1,170
1983 TOTAL	81,070	67,740	4,310	9,020	79,450	64,240	5,770	9,440						
1984 TOTAL	50,100	41,420	510	8,170	55,550	43,820	3,160	8,570						
12 MONTHS[5]														
1984	50,100	41,420	510	8,170	55,550	43,820	3,160	8,570						
1983	81,070	67,740	4,310	9,020	79,450	64,240	5,770	9,440						
1982	47,800	36,760	3,330	7,710	46,740	34,380	3,960	8,400						
1981	36,700	30,170	1,200	5,330	44,700	30,410	1,740	12,550						

OUTSTANDING END OF MONTH INVENTORY[1]

YEAR AND MONTH	Total	1-4 Units				5+ Units			Non-res.[3]
		Total	FHA	VA	Conv.	Total	FHA	Conv.	
1984									
JUL	$8,870	$6,990	$1,480	$1,090	$4,420	$730	$0	$730	$1,150
AUG	7,070	5,520	1,060	740	3,720	640	0	640	910
SEP	7,390	5,490	1,010	680	3,800	640	0	640	1,260
OCT	8,060	6,350	1,190	870	4,290	600	0	600	1,110
NOV	8,010	6,280	1,190	850	4,240	590	0	590	1,140
DEC	8,940	6,990	1,500	980	3,610	170	0	170	780

MORTGAGE BANKING ACTIVITY (Cont'd.)

YEAR AND MONTH	COVERAGE[4]			SERVICING VOLUME[1]				NOTES PAYABLE[1] (End of Month Balances)			
	1-4 Units	5+ Units	Non-[3] res.	Total	1-4 Units	5+ Units	Non.[3] res.	Total	Comm. Paper	To Banks	To Others
1984											
JUL	55%	31%	91%	$421,420	$317,600	$63,980	$39,840	$41,960	$6,190	$12,710	$23,060
AUG	60	31	113	363,570	282,400	42,060	39,110	47,940	5,750	13,220	28,970
SEP	58	51	45	381,070	302,840	39,300	38,930	59,220	4,520	14,240	40,460
OCT	60	48	45	417,780	339,960	40,660	37,160	57,230	4,830	17,070	35,330
NOV	51	43	57	422,490	350,580	39,790	32,120	54,180	4,820	19,180	30,180
DEC	66	96	88	385,270	321,620	33,110	30,540	42,280	8,300	20,080	13,900

CONSTRUCTION AND LAND LOAN ACTIVITY[1]

YEAR AND MONTH	CONSTRUCTION LOANS CLOSED				DISBURSEMENTS DURING MONTH					END OF MONTH INVENTORY				
	Total	1-4 Units	5+ Units	Non-[3] res.	Total	1-4 Units	5+ Units	Non-[3] res.	Land Loans	Total	1-4 Units	5+ Units	Non-[3] res.	Land Loans
1984														
JUL	$790	$130	$210	$450	$280	$ 70	$10	$200	$180	$2,760	$ 900	$240	$1,620	$1,120
AUG	410	110	130	170	100	60	0	40	90	2,200	790	190	1,220	830
SEP	440	100	160	180	100	50	10	40	120	2,150	790	180	1,180	800
OCT	400	210	100	90	90	40	10	40	130	2,180	780	220	1,180	870
NOV	210	140	50	20	170	110	20	40	240	3,520	1,380	410	1,730	2,260
DEC	470	270	120	80	430	220	30	180	470	9,240	3,790	790	4,660	3,440

COMMITMENTS TO BORROWERS: AND LAND CONSTRUCTION LOANS[1]

YEAR AND MONTH	ISSUED DURING MONTH				END OF MONTH BALANCES			
	Total	1-4 Units	5+ Units	Non-[3] res.	Total	1-4 Units	5+ Units	Non-[3] res.
1984								
JUL	$1,730	$130	$ 60	$1,540	$4,090	$870	$470	$2,750
AUG	770	190	80	500	3,680	850	460	2,370
SEP	760	100	80	580	4,170	760	580	2,830
OCT	710	150	160	400	3,820	860	590	2,370
NOV	380	140	70	170	3,230	680	430	2,120
DEC	700	200	10	580	3,910	930	280	2,700

Notes: [1] All dollar amounts are in millions.

[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3] Series labeled non-residential are also inclusive of farm data.

[4] Percent coverage equals outstanding commitments received from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

[5] Year-to-date seasonally adjusted series not calculated.